

## Message Text

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FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC PRIORITY 2970

INFO AMEMBASSY BONN  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY MEXICO  
AMCONSUL MONTREAL  
AMEMBASSY MOSCOW  
AMEMBASSY PARIS  
AMEMBASSY TOKYO  
AMCONSUL TORONTO  
CINCEUR  
SACLANT  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION NATO  
USMISSION USUN NEW YORK  
AMCONSUL CALGARY POUCH  
AMCONSUL HALIFAX POUCH  
AMCONSUL QUEBEC POUCH  
AMCONSUL VANCOUVER POUCH  
AMCONSUL WINNIPEG POUCH

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CINCEUR FOR POLAD, SACLANT FOR POLAD

E.O. 11651: GDS  
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TAGS: AMGT, PFOR, CA  
SUBJECT: PARM: ANNUAL POLICY AND RESOURCE ASSESSMENT FOR  
CANADA - PART I

REF: CERP 0001

PART I - U.S. INTERESTS

1. NO COUNTRY IMPACTS MORE DIRECTLY ON THE LIVES OF AMERICANS THAN CANADA.

2. CANADA IS BY FAR OUR LARGEST TRADING PARTNER, THE SITE OF A FOURTH OF OUR INVESTMENT ABROAD, THE SOURCE OF HALF OF OUR IMPORTS OF RAW MATERIALS OTHER THAN FOOD AND FUEL.

3. FOR EARLY WARNING AND RIPOSTE CANADA IS A FULLY INTEGRATED PARTNER IN THE DEFENSE OF NORTH AMERICA.

4. AS ONE OF THE MOST SUCCESSFUL DEMOCRACIES, CANADA IS A MORAL AND POLITICAL FORCE IN THE WORLD WHOSE ACTIONS ARE GENERALLY CLOSELY COMPATIBLE WITH THOSE OF THE UNITED STATES.

5. AS A NEIGHBOR CANADA HAS A MAJOR IMPACT ON THE PHYSICAL AND PERSONAL ENVIRONMENT OF THE SOME 85 MILLION AMERICANS WHO LIVE WITHIN 200 MILES OF THE BORDER.

6. CERTAINLY DURING THE FORECAST PERIOD OF THE NEXT TWO YEARS, AND PROBABLY MUCH BEYOND, OUR INTERESTS IN CANADA -- ACCESS TO ITS ECONOMY AND DEFENSE SPACE, PARTNERSHIP IN INTERNATIONAL ACTION -- REQUIRE ITS PRESERVATION AS A COHESIVE ENTITY CAPABLE OF ACTING CONFIDENTLY.

7. BUT THERE IS A HIGH PROBABILITY THAT OVER THE NEXT GENERATION CANADA WILL EVOLVE TOWARDS A LOOSER CONFEDERATION, IF NOT BREAK UP. WE WILL HAVE TO DEVELOP  
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NEW MEANS OF PURSUING OUR INTERESTS IN THE RAW-MATERIAL-PRODUCING WEST, IN THE INDUSTRIAL HEARTLAND OF ONTARIO AND ABOVE ALL IN QUEBEC. THIS TRANSFORMATION MAY MAKE SOME (BUT BY NO MEANS ALL) OF OUR ECONOMIC OBJECTIVES EASIER TO REALIZE, BUT OUR POLITICAL AND DEFENSE INTERESTS WILL SUFFER. ADJUSTMENTS IN OUR APPROACH SHOULD THUS LAG, NOT LEAD CHANGES WITHIN CANADA.

## PART II - FACTORS AFFECTING U.S. INTERESTS

II.A. THE THREAT OF QUEBEC SEPARATION IS VERY SERIOUS, BUT IT WILL NOT COME TO A HEAD IN THE TWO-YEAR FORECAST PERIOD.

8. THERE IS NO QUESTION BUT THAT THE PARTI QUEBECOIS (PQ) MEANS BUSINESS ABOUT INDEPENDENCE. TACTICALLY IT IS STAYING LOOSE ON THE DEFINITION OF INDEPENDENCE AND THE MEANS OF OBTAINING IT (BY NEGOTIATION OR UNILATERALLY). BUT THE THRUST IS CLEAR. WE DO NOT EXPECT IT TO CHANGE.

9. IN PURSUING THIS GOAL THE PQ HAS IMPORTANT ASSETS:  
A LEGACY OF GRIEVANCES, THE ADHERENCE OF THE MAJORITY OF  
POLITICALLY-ACTIVE FRENCH-SPEAKING QUEBECKERS BETWEEN THE  
AGES OF 20 AND 40, LEGITIMACY BORN OF A TRADITION OF OPEN-  
NESS AND RESPECT FOR DEMOCRATIC PROCEDURE BOTH IN THE  
PARTY AND NOW IN GOVERNMENT, A REPUTATION FOR CLEANNESS  
IN A PROVINCE RENOWNED FOR CORRUPTION, A DISASTROUSLY  
DIVIDED OPPOSITION, AND CONTROL OF THE LEVERS OF PRO-  
VINCIAL POWER. IT CAN EXPLOIT THE FACT THAT QUEBEC

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 2971

INFO AMEMBASSY BONN

USMISSION GENEVA

AMEMBASSY LONDON

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AMCONSUL MONTREAL

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMCONSUL TORONTO

CINCEUR

SACLANT

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION NATO

USMISSION USUN NEW YORK

AMCONSUL CALGARY POUCH

AMCONSUL HALIFAX POUCH

AMCONSUL QUEBEC POUCH

AMCONSUL VANCOUVER POUCH

AMCONSUL WINNIPEG POUCH

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MEANS OF OBTAINING IT (BY NEGOTIATION OR UNILATERALLY).

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BUT THE THRUST IS CLEAR. WE DO NOT EXPECT IT TO CHANGE.

9. IN PURSUING THIS GOAL THE PQ HAS IMPORTANT ASSETS: A LEGACY OF GRIEVANCES, THE ADHERENCE OF THE MAJORITY OF POLITICALLY-ACTIVE FRENCH-SPEAKING QUEBECKERS BETWEEN THE AGES OF 20 AND 40, LEGITIMACY BORN OF A TRADITION OF OPENNESS AND RESPECT FOR DEMOCRATIC PROCEDURE BOTH IN THE PARTY AND NOW IN GOVERNMENT, A REPUTATION FOR CLEANNES IN A PROVINCE RENOWNED FOR CORRUPTION, A DISASTROUSLY DIVIDED OPPOSITION, AND CONTROL OF THE LEVERS OF PROVINCIAL POWER. IT CAN EXPLOIT THE FACT THAT QUEBEC LOYALTIES TO OTTAWA AND THE REST OF CANADA ARE TRADITIONALLY WEAK.

10. BUT THE PQ HAS MAJOR WEAKNESSES TOO. THE PROVINCIAL ECONOMY IS IN BAD SHAPE (10 PERCENT UNEMPLOYMENT, OVERDEPENDENCE ON DECLINING INDUSTRIES SUCH AS TEXTILES AND ON PUBLIC WORKS). IT IS LIKELY TO GET WORSE AS FOREIGN AND DOMESTIC INVESTORS REACT TO THE POSSIBILITY OF SEPARATION. ALTHOUGH THE PQ IS MAKING SOME HEADWAY IN REASSURING BUSINESS THAT IT IS NOT RABIDLY SOCIALISTIC, APPREHENSIONS ABOUT EXPROPRIATION REMAIN. THE OUTLOOK FOR THE NEXT TWO YEARS IS SLOW GROWTH AND RISING UNEMPLOYMENT.

11. ANOTHER POTENTIAL PQ LIABILITY IS TENSION WITHIN THE PARTY BETWEEN ITS INDEPENDENCE-NOW MINORITY AND GRADUALIST MAJORITY, AND BETWEEN ITS MARXIST LEFT AND PRAGMATIC MAINSTREAM. SO FAR ELECTION SUCCESS HAS SUBMERGED THESE CONFLICTS, BUT THEY WILL SURFACE DURING THE NEXT TWO YEARS.

12. OTTAWA HAS SOME MEANS OF INFLUENCING THE STRUGGLE WITHIN QUEEC. BUT THEY DO NOT APPEAR TO BE DECISIVE. THE MAJORITY OF QUEBECKERS APPEAR UNWILLING TO ACCEPT AN ECONOMIC SACRIFICE FOR INDEPENDENCE, AND THE FEAR OF WHAT IT MIGHT COST IS THE MAIN REASON WHY SUPPORT IN THE

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PROVINCE FOR SEPARATION HAS REMAINED LOW AND CONSTANT AT

AROUND 20 PERCENT. OTTAWA CAN PLAY ON THIS BY ARGUING THAT THE POST-INDEPENDENCE "ASSOCIATION" WITH THE REST OF CANADA THE PQ POSITS CANNOT BE TAKEN FOR GRANTED. OTTAWA CAN ALSO APPEAL TO THE UNDECIDED MAJORITY BY PROPOSING NEGOTIATION ON A NEW FEDERAL/PROVINCIAL DIVISION OF POWERS. THIS GOES AGAINST TRUDEAU'S INSTINCTS AND COULD SET LOOSE VAST CENTRIFUGAL FORCES. BUT SOME MOVE IN THAT DIRECTION S LIKELY WITHIN THE NEXT TWO YEARS.

13. BUT IF OTTAWA DOESN'T HAVE THE MEANS TO FORCE A SHOW-DOWN ON SEPARATION IN THE NEXT TWO YEARS -- WITHOUT UNACCEPTABLE RISKS -- NEITHER DOES QUEBEC. THE PQ CAN'T CHANCE A REFERENDUM ON THE ISSUE UNTIL LATE IN ITS FIVE-YEAR MANDATE, AND MAY THEN HAVE TO FUDGE THE QUESTION TO GET A MAJORITY.

14. THUS THE TWO ADVERSARIES WILL GEAR DOWN FOR A LONG DRAWN OUT STRUGGLE -- THE PQ COUNTING HEAVILY ON QUEBEC'S GRADUALLY "GROWING APART", OTTAWA HOPING THE PQ WILL BEAT ITSELF THROUGH ECONOMIC MISMANAGEMENT OR INTERNAL SPLITS. IN THIS STRUGGLE, THE PROMISED REFERENDUM ON SEPARATION MAY NOT BE THE KEY PLAY, BUT WINNING THE NEXT PROVINCIAL ELECTION COULD BE. WE DO NOT THINK THE PQ WILL BE EASY TO KNOCK OUT OF POWER. AND EVEN SHOULD THE PQ LOSE BOTH, THE PROBLEM WOULD NOT GO AWAY. THE STATUS QUO IS NO LONGER COMPATIBLE WITH THE POWER OF FRENCH CANADIAN NATIONALISM.

II.B. THE FEDERAL GOVERNMENT WILL BE MORE INWARD LOOKING; ITS CAPACITY TO TAKE DECISIVE ACTION MAY DECLINE.

15. SINCE THE PARTI QUEBECOIS VICTORY, THE TRUDEAU GOVERNMENT HAS BECOME OVERWHELMINGLY PREOCCUPIED WITH THE

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USMISSION GENEVA  
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AMEMBASSY MOSCOW  
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AMCONSUL TORONTO  
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QUEBEC QUESTION. EVERY MAJOR GOVERNMENT ACTION -- KEY LEGISLATION, THE BUDGET, TRUDEAU'S ADDRESS TO THE AMERICAN CONGRESS -- IS WEIGHED FOR ITS IMPACT ON THE SEPARATISM QUESTION. THIS WILL NOT CHANGE.

16. IT REMAINS TO BE SEEN WHETHER TRUDEAU CAN CON-  
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VERT THE SEPARATIST THREAT INTO A BROAD NEW MANDATE. AFTER HESITATING FOR THREE MONTHS FOLLOWING THE PQ VICTORY, THE COUNTRY (THE POLLS SUGGEST) IS COMING DOWN STRONGLY IN FAVOR OF TRUDEAU AND HIS PARTY AS BEST FIT TO LEAD IN TIME OF CRISIS. BUT THE REASONS FOR THE HESITATION ARE STILL THERE: BAD ECONOMIC PERFORMANCE, LIBERAL SLOPPINESS AND FATIGUE AFTER EIGHT YEARS IN POWER, PUBLIC TURN-OFF AT WHAT IT TAKES TO BE TRUDEAU'S ARROGANCE, THE ALIENATION OF THE WEST. AS THE COUNTRY SETTLES DOWN FOR A LONG STRUGGLE OVER SEPARATION, THESE RESENTMENTS WILL RESURFACE.

17. UNDER CLARK THE OPPOSITION PROGRESSIVE CONSERVATIVES REMAIN A MIXED BAG. BY ORGANIZATION AND HARD WORK CLARK HAS POSITIONED THE CONSERVATIVES WELL TO TAKE ADVANTAGE OF VOTER RESENTMENT AGAINST TRUDEAU AND THE GOVERNMENT, BUT HE TOTALLY LACKS THE PERSONAL AUTHORITY TO COMPETE WITH TRUDEAU AS THE LEADER OF A COUNTRY IN CRISIS. AND HE APPEARS BEREFT OF NEW POLICY.

18. ELECTIONS ARE EXPECTED IN MID-1978, BUT COULD OCCUR THIS SUMMER OR FALL. CURRENT OUTLOOK IS FOR ANOTHER TRUDEAU VICTORY. BUT WITH THE WEST SOLIDLY CONSERVATIVE A SWEEP ISN'T POSSIBLE; GIVEN THE PERSISTENT UNDERCURRENT OF DISSATISFACTION WITH TRUDEAU A MINORITY GOVERNMENT COULD RESULT.

19. IT IS THUS HARD TO CONSTRUCT A SCENARIO IN WHICH OTTAWA CAN TURN TO FACE QUEBEC (LET ALONE ITS OTHER PROBLEMS) WITH THE COUNTRY SOLIDLY BEHIND IT.

20. ONE IMponderable SHOULD BE NOTED. TRUDEAU FACES AN INCREASINGLY DIFFICULT FAMILY SITUATION AS HIS WIFE ASSERTS AN IDENTITY SEPARATE FROM, OR EVEN OPPOSED TO HIS OWN. DIVORCE CAN'T BE RULED OUT, BUT PROBABLY WOULDN'T CHANGE TRUDEAU'S PROSPECTS FUNDAMENTALLY. CONCEIVABLY  
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HE MIGHT ABANDON PUBLIC LIFE. IN THAT (REMOTE) CASE JOHN TURNER, WHO HAS A WIDE IF FADING CONSTITUENCY, WOULD PROBABLY TAKE HIS PLACE. HIS CHANCES OF RALLYING THE COUNTRY AND HOLDING IT TOGETHER WOULD BE NO WORSE THAN TRUDEAU'S.

II.C. THE ECONOMY WILL REMAIN SLUGGISH, PERFORMING ON ALL MEASURES LESS WELL THAN THE U.S.

21. EVEN WITH STEADY GROWTH IN THE U.S. OVER THE NEXT TWO YEARS, CANADA'S ECONOMIC PERFORMANCE WILL BE BELOW POTENTIAL. FOR 1977 REAL GNP GROWTH WILL PROBABLY RANGE FROM THREE TO FOUR PERCENT. UNEMPLOYMENT, ALREADY AT THE HIGHEST LEVEL IN AT LEAST TWENTY YEARS AND BECOMING AN INCREASING POLITICAL PROBLEM FOR THE GOVERNMENT, WILL RISE FURTHER. PRICE AND WAGE INFLATION IS LIKELY TO BE A COUPLE OF PERCENTAGE POINTS ABOVE THE U.S., EVEN IF A CATCH-UP BUBBLE CAN BE AVOIDED WHEN CONTROLS COME OFF THIS YEAR.

22. BUSINESS UNCERTAINTY -- ABOUT QUEBEC, ABOUT THE FUTURE COURSE OF INFLATION AND THE GOVERNMENT RESPONSE TO IT -- IS THE MAIN DETERRENT TO MORE RAPID GROWTH. IT ALREADY KEEPS CAPITAL INVESTMENT PLANS ON A NO-REAL-GROWTH BASIS.

23. WITH THE CANADIAN DOLLAR EXPECTED TO BE BELOW PAR WITH THE U.S. DOLLAR FOR 1977, AND A SLOWER GROWTH OF

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INFO AMEMBASSY BONN

USMISSION GENEVA

AMEMBASSY LONDON

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AMCONSUL MONTREAL

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMCONSUL TORONTO

CINCEUR 0002

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION NATO

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AMCONSUL QUEBEC POUCH

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PERSONAL DISPOSABLE INCOME DUE TO WAGE CONTROLS, CANADA'S EXPORT GROWTH SHOULD OUTPACE IMPORT INCREASES AND RESULT IN A FAVORABLE MERCHANDISE TRADE BALANCE. HOWEVER, SERVICE PAYMENTS ON THE LARGE FOREIGN DEBT AND A DEFICIT ON TOURISM WILL KEEP THE CURRENT ACCOUNT BALANCE IN DEFICIT BY \$3 TO \$4 BILLION FOR 1977 AND 1978.

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24. THESE CONDITIONS WILL DAMPEN U.S. EXPORTS TO CANADA. MOREOVER, U.S. INVESTORS, EXCEPT FOR BANKS WHICH



WILL BE ALLOWED TO OPERATE MORE NEARLY AS CANADIAN BANKS UNDER NEW LEGISLATION, WILL FIND FEWER OPPORTUNITIES IN CANADA. THE NET OUTFLOW OF DIRECT INVESTMENT FUNDS TO THE U.S., WHICH FIRST APPEARED IN EARLY 1976 AS A COMBINATION OF PURCHASES BY CANADIANS OF U.S. FIRMS AND OF GREATER CANADIAN DIRECT INVESTMENT IN THE UNITED STATES, SHOULD CONTINUE IN 1977 AND 1978.

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II.D. NATIONALISM IS RECEDING AS A CANADA-WIDE FORCE BUT REMAINS STRONG IN ISOLATED SECTORS.

25. CANADA'S ECONOMIC AND POLITICAL VULNERABILITIES ACCOUNT FOR THE MUTING OF NATIONALIST RHETORIC AND ACTIONS. ONE IMPORTANT RESULT IS THAT DISCUSSIONS ON FAR-REACHING BILATERAL COOPERATION IN THE ENERGY FIELD HAVE AGAIN BECOME POSSIBLE. ANOTHER IS THE ROLLBACK OF FOREIGN INVESTMENT CONTROLS. SIMILAR OPPORTUNITIES MAY ARISE IN THE AGRICULTURAL SECTOR. NEVERTHELESS, NATIONALIST SENTIMENTS REMAIN A SIGNIFICANT FACTOR IN CANADIAN DECISION-MAKING IN SOME SECTORS: GULF OF MAINE, AUTO PACT, PUBLISHING AND FILMS.

II.E. THERE IS RENEWED INTEREST IN DEFENSE, BUT IT'S STILL A LOW PRIORITY.

26. OVER THE LAST 18 MONTHS CANADA REVERSED THE DOWNWARD SPIRAL IN DEFENSE SPENDING, COMMITTING TO ACQUISITION OF LONG-RANGE PATROL AIRCRAFT, NEW BATTLE TANKS AND PERSONNEL CARRIERS, AND MOVING TOWARD A DECISION TO REPLACE WORN-OUT FIGHTER AIRCRAFT AND SHIPS. THE GOVERNMENT SHOWS SENSITIVITY TO CHARGES ITS FORCES ARE NO LONGER CREDIBLE, THUS SUGGESTING THAT A PUBLIC CONSTITUENCY FOR DEFENSE EXISTS. BUT CANADA WILL REMAIN A RELUCTANT AND PERHAPS TARDY CONTRIBUTOR TO JOINT DEFENSE PROJECTS, TRY-  
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ING CONSTANTLY TO GET THE U.S. TO MAKE UP SHORTFALLS, AND SLOWING DOWN ALLIANCE-WIDE ACTIONS.

II.F. U.S. AND CANADIAN FOREIGN POLICIES ARE CONVERGING, EXCEPT IN LAW OF THE SEA.

27. CANADA'S "THIRD OPTION" OF DIVERSIFYING FOREIGN RELATIONS HAS LOST STEAM, PARTLY BECAUSE THE STATED OBJECTIVES (NEW FORMAL RELATIONSHIPS WITH THE EC AND JAPAN) HAVE BEEN ACHIEVED, MOSTLY BECAUSE THE EFFORT SEEMS LARGELY DEVOID OF CONSEQUENCE FOR THE REAL WORLD OF TRADE AND INVESTMENT. MOREOVER, INDEPENDENT FORAYS INTO THE THIRD WORLD (THE CUBA AND JAMAICA PLAYS) HAVE PRODUCED AT LEAST AS MUCH BACKLASH AS PLAUDITS AT HOME. MEANWHILE, THE POLICIES AND TONE OF THE NEW CARTER ADMINISTRATION

ARE MORE CONGENIAL TO OTTAWA. THE U.S. AND CANADA NOW CLOSELY AGREE, OR DIFFER ONLY IN NUANCE, ON MOST INTERNATIONAL ISSUES: THE NORTH-SOUTH RELATIONSHIP, HUMAN RIGHTS, CSCE, NUCLEAR NON-PROLIFERATION, CONVENTIONAL ARMS TRANSFERS AND ENVIRONMENT PROTECTION. WE HAVE MAJOR DIFFERENCES ONLY ON THE LAW OF THE SEA, PARTICULARLY STRAITS AND DEEP SEABED MINING.

II.G. FOR ALL THESE REASONS CANADA HAS LESS WILL AND ABILITY TO CHALLENGE THE U.S.; INDEED IT IS LOOKING MORE AND MORE TO US FOR SUPPORT.

28. INCREASINGLY INSECURE AND UNCERTAIN OF ITS

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FM AMEMBASSY OTTAWA

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INFO AMEMBASSY BONN

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AMEMBASSY LONDON

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AMCONSUL MONTREAL

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY TOKYO

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USMISSION OECD PARIS

USMISSION NATO

USMISSION USUN NEW YORK

AMCONSUL CALGARY

AMCONSUL HALIFAX

AMCONSUL QUEBEC

AMCONSUL VANCOUVER

AMCONSUL WINNIPEG

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PART III - THE CONDUCT OF US/CANADA RELATIONS

III.A. DO WE WISH TO SEE THE "SPECIAL RELATIONSHIP" RE-  
INSTATED?

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29. AS THE QUEBEC CRISIS GOES ON -- AND IT WILL GO  
ON FOR A VERY LONG TIME -- IT IS INEVITABLE THAT OTTAWA  
WILL LOOK TO WASHINGTON BOTH FOR SUPPORT AND FOR SPECIAL  
CONCESSIONS TO HELP IT TO CONTAIN THE SEPARATISTS.  
EQUALLY NATURALLY U.S. LEADERS WILL WISH TO RESPOND. THE  
NEW WARMTH IN OUR RELATIONSHIP WILL BECOME DURABLE, EN-  
COMPASSING.

30. THIS DEVELOPMENT IS GOOD IN ITSELF AND WILL  
PRODUCE SOME CONCRETE ADVANTAGES FOR US, NOTABLY GREATER  
ACCESS TO ENERGY AND INVESTMENT OPPORTUNITIES THAN WOULD  
OTHERWISE OCCUR.

31. BUT THERE IS A POTENTIAL DOWN SIDE TOO. WE WILL  
HAVE TO BE CAREFUL THAT ANY NEW "SPECIAL RELATIONSHIP"  
DOES NOT APPEAR TO ESTABLISH A U.S. PROTECTORATE OVER  
CANADA. RESULT COULD BE AN EVEN MORE VIRULENT BURST OF  
QUEBEC NATIONALISM, AND PERHAPS SOME BACKLASH IN ENGLISH  
CANADA AS WELL. IT IS DOUBTFUL THAT OTTAWA COULD FORGE  
THESE NATIONALIST SENTIMENTS INTO A COHERENT WHOLE (ANY  
MORE THAN IT HAS THIS LAST DECADE), AND THE NET IMPACT  
WOULD BE TO INCREASE THE ASSERTIVENESS OF THE PROVINCES  
AND WEAKEN THE CENTER. -

32. WE MUST THUS BE CAREFUL TO AVOID A PROTECTIVE  
OR PATRONIZING ATTITUDE BOTH IN OUR PUBLIC ATTITUDES AND  
IN WAY IN WHICH WE TREAT CANADIAN INTERESTS. WE SHOULD  
CONTINUE TO MAKE A HARD CALCULATION OF OUR OWN INTERESTS  
ON A CASE-BY-CASE BASIS -- WITHOUT UNDUE REFERENCE TO  
LARGER POLITICAL SITUATION -- AND SUSTAIN THE INTEGRITY  
OF AN ARM'S LENGTH BARGAINING PROCESS.

III.B. ARE THERE FURTHER WAYS IN WHICH WE CAN EFFECTIVELY  
PROMOTE OUR INTEREST IN CANADIAN UNITY?

33. THE PRESIDENT'S STATEMENT ON CANADIAN UNITY WILL  
HELP IN ENGLISH CANADA BY CHALLENGING THE FREQUENT ASSUMP-  
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TION THAT THERE IS ALWAYS AN AMERICAN OPTION. IT WILL  
HELP IN FRENCH CANADA BY INFLUENCING SOME OF UNDECIDED  
VOTERS.

34. FROM NOW ON WE CAN EXPECT BOTH QUEBEC AND OTTAWA  
WILL ATTEMPT TO INVOLVE US IN INTERNAL STRUGGLE IN VARIOUS  
WAYS. OVER THE NEXT TWO YEARS IT WILL PROBABLY BE USEFUL  
FOR US OCCASIONALLY, BUT NOT FREQUENTLY, TO RECALL BOTH  
POINTS PRESIDENT MADE (THAT WE PREFER CONFEDERATION AND  
THAT WE ARE CONFIDENT THAT CANADA WILL HOLD TOGETHER).  
BUT WE MUST BE SENSITIVE TO THE DANGER THAT THE EMBASSY  
WILL BE PERCEIVED AS A PLAYER IN THE STRUGGLE FOR CANADA;  
SUCH STATEMENTS ARE BEST MADE FROM THE STATES.

III.C. SHUD THE PROSPECT OF DEVOLUTION AND/OR EVENTUAL  
DISSOLUTION ALTER OUR CURRENT WAY OF DOING BUSINESS IN  
CANADA?

35. NO. IN PARTICULAR WE MUST BE METICULOUS IN  
AVOIDING SUGGESTIONS THAT OUR APPROACH TO QUEBEC (PROTOCOL,  
SUBSTANTIVE ISSUES, BUSINESS RELATIONS) IS IN ANY WAY  
CHANGING. ANY OTHER COURSE WOULD SHARPEN, RATHER THAN  
HELP CONTAIN, THE CHALLENGE TO CANADIAN UNITY.

36. THE PATTERN DEVELOPED RECENTLY GIVES US AMPLE  
SCOPE FOR CONTACT AND COMMUNICATION WITH PROVINCIAL GOVERN-  
MENTS AND PUBLICS. WE SHOULD CONTINUE TO PUT OUR VIEWS  
FORWARD PUBLICLY THROUGHOUT CANADA, BUT WITH THE EMPHASIS  
THIS YEAR ON INFORMATION AND MUTUAL SUPPORT, AS OPPOSED

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AMEMBASSY TOKYO  
AMCONSUL TORONTO  
CINCEUR  
SACLANT  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION NATO  
USMISSION USUN NEW YORK  
AMCONSUL CALGARY POUCH  
AMCONSUL HALIFAX POUCH  
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AMCONSUL VANCOUVER POUCH  
AMCONSUL WINNIPEG POUCH

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AVOIDING SUGGESTIONS THAT OUR APPROACH TO QUEBEC (PROTOCOL,  
SUBSTANTIVE ISSUES, BUSINESS RELATIONS) IS IN ANY WAY  
CHANGING. ANY OTHER COURSE WOULD SHARPEN, RATHER THAN  
HELP CONTAIN, THE CHALLENGE TO CANADIAN UNITY.

36. THE PATTERN DEVELOPED RECENTLY GIVES US AMPLE  
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SCOPE FOR CONTACT AND COMMUNICATION WITH PROVINCIAL GOVERN-  
MENTS AND PUBLICS. WE SHOULD CONTINUE TO PUT OUR VIEWS  
FORWARD PUBLICLY THROUGHOUT CANADA, BUT WITH THE EMPHASIS  
THIS YEAR ON INFORMATION AND MUTUAL SUPPORT, AS OPPOSED  
TO THE PRE-NOVEMBER 15 TACTIC OF GOING PUBLIC TO HEM THE  
GOVERNMENT IN FROM MOVING AGAINST OUR INTERESTS. OUR  
CONSULS GENERAL SHOULD CONTINUE ACTIVELY TO CULTIVATE

PROVINCIAL LEADERS, ON OCCASION MAKING INFORMAL DEMARCHES PARALLEL TO APPROACHES IN OTTAWA. IN QUEBEC, WE SHOULD BE PARTICULARLY CAREFUL TO AVOID AN APPEARANCE OF ZEAL IN APPROACHING THE NEW GOVERNMENT, CALIBRATING OUR TOP LEVEL CONTACTS TO THE STANDARDS OF THE LOCAL CONSULAR CORPS, WHILE MULTIPLYING THOSE THAT DO NOT LEND THEMSELVES TO PUBLICITY OR POLITICAL EXPLOITATION BY THE PQ.

III.D. ARE THERE AREAS IN OUR RELATIONSHIP IN WHICH NEW INITIATIVES CAN BE TAKEN?

37. DURING MUCH OF 70'S OUR RELATIONSHIP HAS BEEN REACTIVE, CHARACTERIZED BY ADJUSTMENT OF "IRRITANTS." ALREADY THIS YEAR SOME OPPORTUNITIES FOR MAJOR NEW COOPERATIVE VENTURES ARE ON TABLE: GAS AND OIL PIPELINES, PURCHASE OF A REPLACEMENT FIGHTER, POSSIBILITY OF A COOPERATIVE FISHERIES AND HYDRO-CARBONS REGIME IN GULF OF MAINE. ONCE THIS AGENDA HAS BEEN COMPLETED, WE MAY WISH TO LOOK TO OTHER OPPORTUNITIES, INCLUDING BROADENING AND CODIFICATION OF IJC'S MANDATE, CLOSER COORDINATION OF ECONOMIC MANAGEMENT, CODIFICATION OF EXTRA-TERRITORIAL REACH OF LEGISLATION ON BOTH SIDES, AND MAYBE U.S. PARTICIPATION IN THE DEVELOPMENT OF CANADIAN HEAVY OILS AND TAR SANDS (WHICH MAY BE RELATIVELY LESS CAPITAL INTENSIVE THAN MANY OTHER OPTIONS AVAILABLE TO US). HOWEVER, WE SHOULD BE CAREFUL FOR THE REASONS STATED ABOVE TO AVOID THE APPEARANCE OR FACT OF U.S. DOMINANCE, AND THE SPEED AND SCOPE OF ANY NEW AGENDA PROPOSED SHOULD BE GOVERNED BY THAT CONSTRAINT.

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PART IV -- MAJOR BILATERAL ISSUES

IV. A. ENERGY

38. GAS PIPELINE. OUR OBJECTIVE IS TO MAKE SURE CANADA IS PREPARED (A) TO OFFER US AN OVERLAND ROUTE TO BRING ALASKAN GAS TO MARKET AND (B) TO DO SO THIS SUMMER, SHOULD THE PRESIDENT DECIDE THAT OPTION BEST SUITS U.S. INTERESTS. OTTAWA'S RELUCTANCE TO FACE UP TO THE NATIVE CLAIMS ISSUE (WHICH IS CRITICAL TO THE MACKENZIE VALLEY ROUTE AND IMPORTANT TO THE ALCAN ROUTE), REGULATORY DELAYS, ONGOING ABSENCE OF INTRAGOVERNMENTAL COORDINATION, AND THE RELUCTANCE OF THE GOVERNMENT TO TAKE CONTROVERSIAL DECISIONS AS THE ELECTION APPROACHES ARE ALL OBSTACLES TO BE OVERCOME. CONTINUOUS U.S. PRODDING WILL BE NEEDED, BUT TO AVOID A NATIONALIST BACKLASH IT MUST BE KEPT OUT OF THE MEDIA AND EXERCISED LARGELY WITHIN OTTAWA, RATHER THAN FROM WASHINGTON. WHEN AND AS A JOINT PIPELINE IS DECIDED, THE KEY TASK WILL BE TO KEEP

IT ON SCHEDULE. THAT WILL ALSO REQUIRE CONTINUOUS U.S. LEADERSHIP, BUT IT CAN BE EXERCISED MORE OPENLY FROM WASHINGTON.

39. OIL PIPELINE. A CROSS-BRITISH COLOMBIA OIL LINE HAS MAJOR APPEAL TO BOTH COUNTRIES AS A MEANS OF BRINGING ALASKAN OIL TO THE LOWER 48 AND RELIEVING FUTURE OIL SHORTAGES IN THE CANADIAN WEST WITHOUT MASSIVE INCREASES IN PUGET SOUND TRAFFIC. EARLY AVAILABILITY COULD BE A DECISIVE FACTOR IN WHETHER THE U.S.

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INFO AMEMBASSY BONN  
USMISSION GENEVA  
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AMEMBASSY MEXICO  
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PREFERS THE CROSS-CANADA LINE TO OTHER ALTERNATIVES.

WE SHOULD THUS ENCOURAGE OTTAWA TO HOLD TO ITS SCHEDULE FOR COMPLETING ENVIRONMENT AND REGULATORY STUDIES BY YEAR END. AT THE RIGHT MOMENT, WE MAY BE ABLE TO BRING PREMIER BENNETTTT BRITISH COLOMBIA INTO EFFORTS TO GET A POSITIVE DECISION, SHOULD WE CHOOSE THIS OPTION.

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40. OIL AND GAS SUPPLIES. OTTAWA HAS ALREADY INDICATED WILLINGNESS TO GO ON SUPPLYING THE NORTHERN TIER IN OIL IN RETURN FOR ACCESS TO SECURE STORAGE, AND SOME INCREMENTAL GAS SUPPLIES (EITHER IN THE NEXT FEW YEARS, OR WHEN GAS CONTRACTS EXPIRE IN 1989) MAY BE NEGOTIABLE. RATHER THAN INITIATE PROPOSALS OURSELVES, WE SHOULD CULTIVATE A WARM AND COOPERATIVE ATMOSPHERE ON THESE ISSUES, AND THEN FOLLOW UP AGGRESSIVELY WHEN THE CANADIANS TAKE THE LEAD, AS THEY HAVE ON EMERGENCY GAS, NORTHERN TIER, AND NOW ON PETROCHEMICALS.

41. OTHER ENERGY. ONE NEGLECTED AREA THAT SHOULD BE EXPLORED IS THE POTENTIAL FOR LARGE-SCALE SWAPS OF ELECTRICITY. WE SHOULD ALSO AT SOME POINT MAKE USE OF THE LEVERAGE GROWING CANADIAN DEMAND FOR U.S. COAL GIVES US BY INDICATING THAT WE ARE PREPARED TO GIVE CANADA NATIONAL TREATMENT IN CASE OF ANY COAL SUPPLY INTERRUPTION, PROVIDED THEY RECIPROCATATE ON GAS.

#### IV. B. BOUNDARIES

42. OF THE FOUR SEAWARD BOUNDARY DISPUTES, THE MOST URGENT IS THE GULF OF MAINE WHERE RICH FISHING AND POSSIBLY HYDROCARBONS EXIST. CANADA WILL BE IN NO GREAT HURRY TO SETTLE THIS DISPUTE, UNLESS IT CAN BE BROUGHT HOME TO OTTAWA AND CANADIAN FISHING INTERESTS THAT THE INTERIM AGREEMENT EXPIRING AT YEAR'S END, WHICH GIVES CANADIANS ALMOST EVERYTHING THEY WOULD WANT FOR THE LONG TERM, WILL NOT BE RENEWED. OUR INTEREST IN SETTLEMENT IS NOT ONLY IN PROTECTION OF U.S. FISHING INTERESTS, BUT IN PREVENTING A MAJOR NEW IRRITANT FROM DEVELOPING. HERE AGAIN WE WILL HAVE TO TAKE THE LEAD AGGRESSIVELY, AS CANADIANS ARE MOST LIKELY TO ADOPT DOG-IN-THE-MANGER TACTICS.

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AMEMBASSY PARIS  
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AMCONSUL TORONTO  
CINCEUR  
SACLANT  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
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AMCONSUL WINNIPEG POUCH

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#### IV. C. ENVIRONMENT

43. OUR CURRENT TECHNIQUES FOR HANDLING BILATERAL  
ENVIRONMENT ISSUES -- REFERRAL TO THE INTERNATIONAL  
JOINT COMMISSION; GRADUAL DEVELOPMENT OF A BODY OF  
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TREATIES (GREAT LAKES WATER QUALITY AGREEMENT, MARINE  
POLLUTION); TREATMENT OF EACH ISSUE ON ITS MERITS,  
WITHOUT LINKING TO OTHERS -- ARE LARGELY SATISFACTORY.  
HOWEVER THERE IS A MAJOR OPPORTUNITY FOR INNOVATION IN  
MARINE POLLUTION AND RECIPROCAL ACCESS TO THE OTHER  
COUNTRY'S LIABILITY COMPENSATION ARRANGEMENTS. WE  
SHOULD PURSUE IT HARD.

44. FOR CANADIANS THE PRIMARY ISSUE THIS YEAR WILL STILL BE THE GARRISON DIVERSION. WHEN AND AS BARGAINING DEVELOPS BETWEEN CONGRESS AND THE ADMINISTRATION ON ELIMINATION OF U.S. WATER DEVELOPMENT PROJECTS, IT WILL BE IMPORTANT TO MAKE SURE THE CONGRESSIONAL COMMITTEES INVOLVED ARE MINDFUL OF CANADIAN ASPECTS. WE SHOULD ALSO MAKE SURE THE FLATHEAD RIVER COAL-MINING PROJECT IMPLICATIONS ARE KEPT BEFORE THE CANADIAN PUBLIC, PENDING A FINAL DECISION ON THAT PROJECT.

45. THE GREAT LAKES WATER QUALITY AGREEMENT FIVE-YEAR REVIEW OFFERS A MAJOR OPPORTUNITY FOR NEW COOPERATIVE ACTION, PARTICULARLY ON PHOSPHOROUS POLLUTION AND TOXINS. IT ALSO GIVES A NEW FORUM FROM WHICH TO TELL THE CANADIAN PEOPLE WHAT WE HAVE DONE SO FAR. THE CURRENT IMPRESSION IN CANADA IS THAT WE HAVE BEEN TARDY AND DELINQUENT, WHILE OTTAWA HAS BEEN EXEMPLARY. THIS MISIMPRESSION REQUIRES A SUSTAINED EFFORT OF CORRECTION. THIS IS ALSO THE YEAR TO ENLARGE ON JOINT EFFORTS AT REGULATING GREAT LAKES WATER LEVELS.

#### IV. D. TRADE

46. THERE ARE STRONG PROTECTIONIST CURRENTS RUNNING IN CANADA, AS A RESULT OF HIGH WAGES, LAGGING INVESTMENT, AND THE PAYMENTS DEFICIT. THE GOC HAS RECENTLY IMPOSED COMPREHENSIVE RESTRICTIONS ON TEXTILE AND CLOTHING IMPORTS TO THE SIGNIFICANT DETRIMENT OF  
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U.S. TRADE INTERESTS. OTHER INDUSTRIES ARE SEEKING RELIEF. WE HAVE INDICATIONS THAT THE GOC HAS DEFERRED ACTION TO PROTECT THE FOOTWEAR INDUSTRY IN PART BECAUSE OF THE STRONG ADVERSE REACTION OF THE U.S. AND OTHER COUNTRIES TO ITS TEXTILE AND CLOTHING RESTRICTIONS. CONTINUED VIGOROUS REPRESENTATION OF U.S. TRADE INTERESTS WILL BE NECESSARY, INCLUDING FIRM REQUESTS FOR COMPENSATION WHEN U.S. GATT RIGHTS ARE VIOLATED. AND THE U.S. ADMINISTRATION WILL HAVE TO AVOID RESTRICTIVE ACTION ON ITS SIDE WHICH COULD SERVE AS A MODEL, OR A JUSTIFICATION, FOR THE GOC.

47. PUBLICATION OF PARALLEL STUDIES OF AUTO INDUSTRY IS LIKELY TO PUT PRESSURE ON GOC TO ACT TO OVERCOME WHAT FROM CANADIAN VIEWPOINT ARE SEEN AS PROBLEMS AND IMBALANCES IN AUTO TRADE. CANADIAN OFFICIALS RECOGNIZE THAT ANY ATTEMPT TO OPEN THE AUTO AGREEMENT FOR RENEGOTIATION MAY BACKFIRE AND PROFESS TO WANT TO KEEP ISSUE UNDER CONTROL. BUT THEIR CURRENT SOLUTION -- JOINT U.S./CANADIAN ENCOURAGEMENT TO THE INDUSTRY TO SOURCE

THEIR PURCHASES SO AS TO CREATE TRADE, INVESTMENT AND  
JOB "BALANCE" -- WON'T WASH. WE SHOULD KEEP THE  
DIALOGUE OPEN, BE WILLING TO CONTEMPLATE SUCH CANADIAN  
ACTION TO ENCOURAGE INVESTMENT IN THE AUTO INDUSTRY  
AS WOULD NOT TRIGGER COUNTERVAILING, BUT SIGNAL FIRMLY  
NOW THAT WE WON'T GO FURTHER. IF WE ARE FIRM,  
THIS SHOULD NOT BE AN EXPLOSIVE ISSUE IN THE FORECAST  
PERIOD.

IV. E. OVERALL ECONOMIC PERFORMANCE

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INFO AMEMBASSY BONN

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AMEMBASSY LONDON

AMEMBASSY MEXICO

AMCONSUL MONTREAL

AMEMBASSY MOSCOW

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GOVERNMENT MAY GO ONLY A SMALL WAY TOWARD RESTIMULATING IT, FOR FEAR OF AN INFLATIONARY RESURGENCE. THUS CANADA MAY NOT DO ITS PART THIS YEAR IN OUR WORLD-WIDE STRATEGY OF RE-EXPANSION. WE SHOULD MONITOR THIS CLOSELY, AND MAY NEED TO RAISE IT WITH OTTAWA LATER.

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#### IV. F. INVESTMENT

49. WITH THE REVERSAL OF DIRECT INVESTMENTOMOOAHC AND HIGH JOBLESSNESS OTTAWA NI T PROVINCES ARE

SWITCHING FROM NATIONALIST

POSTURES TO A MORE RE-AMFITCPTIVE, EVEN ENCOURAGING ATTITUDE TOWARDS FOREIGN

INVESTMENT. SCXXNL WE NEED TO BE VIGILANT FOR THE OCCASIONAL USE OF EXISTING MACHINERY TO FAVOR CANADIAN OVER U.S. FIRMS ESTABLISHED IN CANADA IN WAYS CONTRARY TO THE OECD INVESTMENT GUIDELINES, WHICH CANADA HAS ACCEPTED.

#### IV. G. TRANSPORTATION AND COMMUNICATIONS

50. BORDER TV. WE WERE UNABLE TO PREVENT THE GOC FROM CHANGING TAX RULES TO THE DETRIMENT OF U.S. BROADCASTERS BUT WE DID SUCCEED IN GETTING A MORATORIUM ONFFLWPOLICY REQUIRING CABLE SYSTEMS TO DELETE COMMERCIALS FROM U.S. SIGNALS. THE MORATORIUM IS TO LAST UNTIL ASSESSMENTS OF THE TAX IMPACT AND OF ALTERNATIVE POLICIES ARE COMPLETED. OUR INTEREST IS TO MAINTAIN THE MORATORIUM AS LONG AS POSSIBLE. TO THIS END WE SHOULD BE READY TO DISCUSS POSSIBLE ALTERNATIVES, SUCH AS NON-SIMULTANEOUS DELETION.

51. OTHER CULTURAL NATIONALISM POLICIES. THE GOC IS STUDYING THE PUBLICATIONS AND FILM SECTORS TO SEE WHAT SHOULD BE DONE TO PROMOTE CANADIAN PARTICIPATION. IT DOESN'T HAVE A BIG HEAD OF STEAM UP BUT THIS COULD BE A SLEEPER. IF THE RELEVANT MINISTERS

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DO DECIDE TO MOVE WE SHOULD TRY TO GET IN WITH A REQUEST FOR CONSULTATION BEFORE THE ISSUE GOES TO CABINET.

52. TRANSPORT POLICY. GOC HAS INTRODUCED NEW LEGISLATION WHICH (DESPITE USG REPRESENTATIONS) CONTAINS LANGUAGE SETTING CANADIAN CONTROL IN PRIVATE TRANSPORT SECTOR AS AN OBJECTIVE. EXTAFH HAS ADVISED US THAT THIS PROVISION DOES NOT NECESSARILY FORETELL REGULATORY OR ADMINISTRATIVE ACTION TO ATTAIN THE OBJECTIVE BUT THE SITUATION WILL BEAR WATCHING.

53. ST. LAWRENCE SEAWAY TOLLS. BUDGETARY AND TRANSPORT MINISTRY PRESSURES WILL CONTINUE TO DRIVE CANADIAN INITIATIVES TO RAISE TOLLS ON THE SEAWAY AND THE WELLAND CANAL. WE SHOULD BE FIRM IN RESISTING CANADIAN EFFORTS TO STAMPEDE US ON THIS, TAKING THE ISSUE TO HIGHEST LEVEL HERE IF NECESSARY. EQUALLY, WE SHOULD GIVE WHAT SATISFACTION WE CAN TO THE PRINCIPLE OF DEFRAYING REASONABLE COSTS WITHOUT IMPEDING MAJOR COMMODITY FLOWS.

54. CIVIL AVIATION AGREEMENT. BY 1978 ALL OF THE NEW ROUTES PERMITTED BY THE 1974 REVISION OF THE BILATERAL AVIATION AGREEMENT SHOULD BE OPERATIONAL. THERE MAY THEN BE NEED TO CONSIDER REQUESTS FROM CANADA FOR ADDITIONAL ROUTES.

#### IV. H. COMMERCIAL

55. BECAUSE OF THE SPECIAL SITUATION OF CANADA, WITH ITS ALREADY GREAT ECONOMIC AND COMMERCIAL INTERDEPENDENCE WITH THE U.S., THE NORMAL EXPORT PROMOTION TOOLS ARE LARGELY INAPPROPRIATE OR SUPERFLUOUS. THE

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CURRENT CCP FEATURES AN EXPERIMENTAL PROGRAM UNDER WHICH THE PRINCIPAL COMMERCIAL POSTS (TORONTO INITIALLY, WITH VANCOUVER TO FOLLOW) FOCUS ON DEVELOPMENT OF EXPORT CONSCIOUSNESS AMONG NEW-TO-MARKET FIRMS IN NEIGHBORING REGIONS OF THE U.S. BY CONDUCTING SEMINARS IN THE U.S. IN COOPERATION WITH COMMERCE FIELD OFFICES. THE EX-  
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PERIMENTAL PROGRAM SHOULD BE GIVEN A FAIR TRIAL. UNLESS IT SHOWS CLEAR POSITIVE RESULTS WITHIN A YEAR, WE WILL PROPOSE REVIEW OF RELEVANCE OF CCP CONCEPT TO CANADA AND ASK WHETHER THE RESOURCES COULD NOT BE MORE EFFECTIVELY USED FOR OTHER PURPOSES.  
PART V - MAJOR MULTILATERAL ISSUES

#### V. A. LAW OF THE SEA

56. BILATERALLY, THERE ARE TWO OBSTACLES TO ACHIEVEMENT OF U. S. OBJECTIVES: AN ADIAN GOVERNMENT CONCERN ABOUT ABILITY OF LAND-BASED MINING INDUSTRIES TO COMPETE WITH DEEP SEABED MINING VENTURES; AND CANADA'S POSITION ON ARCTIC POLLUTION AND STRAITS.

57. IN OUR JUDGMENT, WE SHOULD NOT BE OVERLY SOLICITOUS OF PROFESSED CANADIAN CONCERNS ABOUT DEEP-SEA MINING. THEY ARE NOT SHARED BY CANADIAN INDUSTRY, AND MAY IN PART BE GRANDSTANDING FOR THE

LDC'S. IF THEY PERSIST WE MAY WISH TO TRY A VERY HIGH LEVEL EFFORT TO GET ACCOMMODATION, UNLESS OF COURSE WE ARE READY TO CHANGE POSITION FOR OTHER REASONS AND HAVE SOME TRADING CHIPS.

58. RE STRAITS/ARCTIC POLLUTION, WE OFFERED LAST YEAR TO SUPPORT CANADA'S POSITION ON COASTAL STATE POLLUTION CONTROL OVER CERTAIN ARCTIC WATERS IF CANADA AGREED TO BACK OUR POSITION ON FREE TRANSIT THROUGH STRAITS. SINCE OUR DEMARCHE WAS BASED ON DESIRE TO ASSURE FREE TRANSIT THROUGH NORTHWEST PASSAGE, WE WERE DISAPPOINTED WHEN CANADA INDICATED IN ITS RESPONSE THAT IT INTENDED TO DRAW BASELINES AROUND ITS ENTIRE ARCTIC ARCHIPELAGO AND DECLARE THOSE WATERS AS INTERNAL. WE MUST NOW DECIDE WHETHER WE CAN REACH AN ACCOMMODATION WITH CANADA ON THIS MATTER WITHOUT UNDERMINING OUR INTERESTS ELSEWHERE;  
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BALL IS IN OUR COURT.

V. B. MTN

59. CANADA AND THE U.S. SHARE VERY SIMILAR OBJECTIVES IN SEEKING POSITIVE RESULTS IN THE MULTILATERAL TRADE NEGOTIATIONS ALTHOUGH WE DIFFER IN OUR APPROACHES TO SOME OF THE SPECIFIC ISSUES. WE SHOULD MAKE A PARTICULAR EFFORT AT HIGH LEVEL COORDINATION IN THIS FIELD, AS IT WILL HELP ALSO TO RESTRAIN RENASCENT CANADIAN PROTECTIONISM.

V. C. GRAINS

60. CANADA HAS THE SAME INTEREST WE HAVE IN AVOIDING CUT-THROAT COMPETITION IN THE GRAIN MARKET THIS YEAR, AND IN GETTING CONSUMING COUNTRIES TO SHARE IN FUNDING STOCKS THAT WILL PERIODICALLY APPEAR IN THE WORLD GRAIN SYSTEM. AGGRESSIVE FOLLOW-UP TO SECRETARY BERGLAND'S OVERTURE CAN PAY IMPORTANT DIVIDENDS.

V. D. NORTH-SOUTH DIALOGUE

61. CANADA HAS PLAYED A GENERALLY POSITIVE ROLE, ESPECIALLY IN ITS CAPACITY AS THE INDUSTRIALIZED COUNTRIES' CO-CHAIRMAN IN CIEC. IT HAS HAD A TENDENCY TO CURRY FAVOR WITH THE LDC'S BY STAKING OUT POSITIONS ON THE GENEROUS SIDE OF OUR OWN, BUT ITS CHIEF CURRENT

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CONCERN IS THAT THE NEW ADMINISTRATRION'S POLICIES MAY  
MAKE CANADIANS LOOK CONSERVATIVE. EVEN SO WE MUST  
WATCH OUT FOR CANADIAN TENDENCY TO GO FOR A SUCCESS  
IN CIEC (AS OPPOSED TO THE LONG-TERM PROCESS OF NORTH-  
SOUTH DIALOGUE) FOR ITS OWN SAKE, BECAUSE CANADIAN  
PRESTIGE IS INVOLVED.

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V. E. DEFENSE



62. TO EXPLOIT CANADA'S REVIVING INTEREST IN DEFENSE ISSUES WE SHOULD (A) MAKE A SPECIAL EFFORT TO SUPPORT CANADA'S NEW ACTIVIST DEFENSE MINISTER; (B) PERIODICALLY REMIND THE CANADIAN PUBLIC THAT THE U.S. IS SPENDING MORE FOR DEFENSE IN REAL TERMS AND THEY SHOULD TOO; AND (C) AT THE CRITICAL POINT (PERHAPS EARLY 1978) USE A SECDEF VISIT TO OTTAWA TO GIVE THE FINAL PUSH FOR AN EARLY DECISION ON PURCHASE OF NEW FIGHTER AIRCRAFT.

V. F. DISARMAMENT AND NON-PROLIFERATION

63. GOC POLICY IS LARGELY PARALLEL TO OURS. IT IS SUPPORTIVE OF U.S. EFFORTS AT SALT AND MBFR AND AT CCD. IT VIEWS WITH UNHAPPINESS, BUT WITH RESIGNATION, FORTHCOMING UN CONFERENCE ON DISARMAMENT.

64. ONE POSSIBLE AREA OF DIFFERENCE MAY CONTINUE TO BE FULL FUEL CYCLE SAFEGUARDS, DEPENDING ON THE PRESIDENT'S DECISION ON U.S. POLICY. CANADA HOPES WE WILL JOIN THEM IN INSISTING ON SUCH SAFEGUARDS AS A CONDITION FOR ALL NUCLEAR TRANSACTIONS, THUS AMONG OTHER THINGS REMOVING SOME OF THE COMMERCIAL DISADVANTAGES OF THEIR CURRENT POLICY. OTTAWA ALSO HOPES THAT CANBERRA AND WASHINGTON WILL JOIN IT IN COMMON ACTION AS THE DOMINANT POWERS IN THE URANIUM TRADE. BUT EVEN IF WE DO NOT GO AS FAR AS THE CANADIANS HAVE, IN FULL FUEL CYCLE SAFEGUARDS, WE CAN EXPECT CONTINUED CLOSE COOPERATION FROM THEM. ENDERS

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## Message Attributes

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**Office:** ACTION EUR  
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**Review Content Flags:**  
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**TAGS:** AMGT, PFOR, PARM, ECRP, CA, US  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/33d0bab9-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009